STATEMENT OF TIMOTHY COHELAN, ATTORNEY AT LAW, REGARDING STRUCTURE, MECHANICS, AND ECONOMICS OF THE CRUDE OIL INDUSTRY IN CALIFORNIA RELATIVE TO PROPOSED R-I-K PROGRAM BEFORE THE SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES COMMITTEE ON RESOURCES UNITED STATES HOUSE OF REPRESENTATIVES SEPTEMBER 18, 1997

Madam Chairman and Members of the Subcommittee:

Thank you for inviting me to present testimony concerning the structure, mechanics and economics of the oil and gas industry as it relates to the concept of using an R-I-K program versus federal royalty "in value."

I draw almost entirely from my experience in connection with a pending California state court civil action. Aguilar, et al v. ARCO, et al. (San Diego Superior Court) is a certified class action in which 22 million California consumers are represented by our office in connection with allegations of price fixing which, of course, the industry strongly denies. Among other things, it is our belief that the normal market structure of oligopoly has moved from non-collusive to collusive in connection with the implementation of certain California regulations for re-formulated gasoline instituted in March, 1996.

California Crude Oil Markets - A Concentration of Sellers

California crude oil or San Joaquin Valley crude/Kern crude provides approximately 1 million barrels of crude oil that is then primarily sold to California's refiners. Over 50% of the crude oil used in California is Alaskan North Slope with the difference largely being comprised of California based heavy crude oils.

The competitive characteristics of the market are rapidly changing. California upstream markets have recently begun to concentrate. A pending Shell/Mobil merger of crude oil fields when matched with the Texaco/Monterey Resources merger, will result in approximately 60% of the daily production of California crude being controlled by three entities. Texaco currently produces 126,000 barrels of oil a day in California and recently announced plans to acquire Monterey Resources which has approximately a 54,000 barrel a day production in Kern Fields. Shell and Mobil also recently announced plans to combine oil fields in California. In 1995 Shell's California operations produced 140,000 barrels of crude oil daily, second only to Chevron's 152,700 barrels. Mobil produced 105,000 barrels of crude daily in 1995. Approximately 1 million barrels of oil are totally produced in California every day.

This crude oil reaches the refining centers in the Bay area and in Los Angeles largely through proprietary pipelines. Heavy crude is heated for transportation or blended with light crude while it is placed in a crude oil pipeline. Apparently heavy crudes, however, are usually heated to allow for the refinery configurations which allow for refining of heavier crude oils. These pipeline systems are owned by three majors, Chevron, Mobil, and Texaco which is the biggest.

This crude oil reaches California's refineries which utilizing proprietary pipelines owned and controlled by majors. Competitive economic considerations may, and often do, come into play in connection with the transportation to "market."

Although 25% of federal lands located in California are San Joaquin Valley heavy crude, the offshore federal production would also be affected by this increasing market concentration.

California Refinery Mergers and CARB GAS - A Concentration of Crude Buyers

The consolidation of California's downstream crude oil customers - the refiners - also has significant implications for an R-I-K program.

The California Energy Commission has stated California's refining sector trends show cause for concern. Fewer refineries are now located in California. CEC labels a "major challenge" facing the oil industry over the next decade "the availability of refining capacity to make fuel to California's specifications, especially reformulated gasoline and diesel." (See California Fuels Report, California Energy Commission, 1995.) Since 1982 the number of operating refineries has decreased from 44 to 24. Today California's CARB Phase 2 reformulated gasoline, however, is only made by 12 refineries all presently owned by majors.

California's motor gasoline markets have become extremely concentrated with recent merger activity, both actual and proposed. If a pending Texaco/Shell merger is accomplished, almost 80% of California's gasoline will be refined by four separate entities, Chevron, ARCO, Shell/Texaco and Tosco/Unocal.

Tosco/Unocal, after its merger, now operates four California refineries and sells gasoline through over 2,000 stations under the names of British Petroleum, Circle K, Unocal and Unocal/76. The completion of this recent merger has allowed the consolidation of production and pricing decisions throughout California. The additional remaining major market players, Mobil, Exxon and Ultramar/Petro-Diamond, provide the market dynamics. They can be expected to make production and supply decisions that ensure a predictable and stable demand for crude oil.

Since there will be fewer buyers in the market place for California crude oil due to this concentration, there will be increasing pressure on crude oil prices and a substantial motivation from this increasingly small group to acquire crude oil, whether from the Alaska North Slope, the Persian Gulf, or from the San Joaquin Valley fields, at the lowest possible price. Also given the constraints of the crude oil marketing mechanisms, it is unlikely that a manageable and practical R-I-K marketing system could be achieved in California.

My involvement and concern has to do to with the increasing pressure on California retail prices which we believe is a direct result of industry concentration and collusive production, supply and pricing practices. Industry concentration in California will increasingly allow for wider refining margins which will increasingly cost California drivers at the gas pump. Following their economic interest in increasing this profitability, this new concentrated California refiner buyers' market will also attempt to depress to the maximum extent possible, its actual operating costs including the cost of crude.

Implications for R-I-K in California Crude Oil Markets

Natural gas markets use "market centers" to allow for a maximum exposure to numerous buyers and numerous sellers to the market place. To the extent that the maximum number of market players is interacting, both buyers and sellers in the face of other market forces such as demand and product availability, the likelihood is that fair market values are assigned.

The California experience indicates that the industry is in a period of substantial transition. Domestic crude oil markets appear to be undergoing concentrations as California evidences. This has the affect of placing fewer sellers into a market structure in which the government would be seeking to compete. In California, based upon our review, it makes no sense whatsoever.

The downstream consolidation that California and much of the United States is undergoing also has substantial implications for any government R-I-K program. Domestic refining markets are undergoing "rationalization" and the overall crude throughput capacity more closely matches the domestic markets demand. This indicates a decreasing number of domestic buyers for crude oil products if the government is in the business of selling.

In our case it has become clear that there is market power that is being exerted by the limited number of California oil companies that refine and market gasoline. Market power, of course, is the power to change a market price by adjusting the amount that's produced. This occurs daily in California in connection with CARB gas.

Substantial barriers to entry exist which also facilitates the collusive nature of the California refining industry. Obviously, initiating or starting a refinery in California would be difficult or impossible today. Also the numerous small refiners that formerly provided the extra margin of competition have gone out of business or have turned to production of asphalt or other non-motor gasoline products because of an inability to provide the improvements necessary to convert to CARB Phase II gasoline.

A study of empirical work considering interaction among firms supports intuitive ideas about whether tacit or explicit collusion can persist in an industry. The familiarity that firms have with each other in terms of production cost plays a critical role. Each refiner in California, of course, knows all of the important competitive production prices of its competitors. Collusion thrives also where market demand is stable. California motorists consume something in the order of 920,000 barrels of gasoline per day with a predictable fluctuation between seasons. Each of California's major gasoline marketers also monitors the prices of each of the other firms, including its wholesale prices at the rack/terminal and dealer tank wagon level. Ability to monitor output can also be a factor given the interaction between trading departments and the availability now of aggregated production records by the California Energy Commission which is now made available to each refinery. It has always been the case that when fewer firms are in a market, the more it is more likely for collusion to occur and California is now moving from nine companies to seven with two recent mergers, Unocal/Tosco and Shell/Texaco (merger pending). Seven market makers are not enough to prevent collusive pricing and coordinated production decisions, given the incestuous nature of supply relationships. The products that all of these companies make are now standardized and therefore these rival products are subject to common specifications such as those of the California Air Resources Board and the Santa Fe Pipeline system. Given this great degree of interchangeability at present, California's oil refiners share among themselves important supply relationships, both on a term sale, geographic exchange and spot sale basis, that ensure that everyone's production capabilities will match their market share.

These upstream and downstream trends in the California Crude oil markets have critical implications for the federal government in connection with its present review of whether an R-I-K structure would work anywhere for crude oil. The question, however, for the government is whether or not these market risks will yield benefits to the government in light of these uncertainties.

Whether or not crude oil or natural gas is involved, relevant R-I-K questions are:

1. What is the nature of the local market place in which the government will be competing?

2. What is the logical geographical definition of the downstream market for my product? For instance, is it domestic refiners serving a defined and predictable geographic area?

3. What total market concentration trends occur at the upstream or downstream levels? Are there fewer sellers in the market in which the government will be competing? Are there fewer buyers in the market in which the government will compete?

4. How are prices set? Will there be independent objective bench mark pricing or will prices be conducted based upon ambiguous market interactions, such as "small spot sales" which guide overall pricing levels?

October 10, 1997

The Honorable Bruce Babbitt
Secretary
U.S. Department of Interior
1849 C Street, NW
Washington, DC 20240

Dear Secretary Babbitt,

We are writing to express our serious concern and indeed our deep dismay over the recent notice of the Minerals Management Service re-opening its proposal for valuation of oil produced on federal lands.

In its notice, dated September 22, MMS asks for comments on "alternatives" to its original proposals to value oil sold under non-arm's length contracts on the basis of the NYMEX generally and Alaskan North Slope spot prices for California. No where in its notice does MMS even suggest that these "alternatives" would resolve the problems of undervaluation that led it to seek changes to its current rule. In fact, the "alternatives" proposed are little more than cosmetic alterations to MMS' current, flawed process -- variations on a discredited theme.

Of course, we recognize that royalty payors -- for the most part integrated and large independent oil companies -- unanimously and adamently oppose use of independent market price indices like NYMEX and ANS. This opposition is particularly ironic since these same companies use those indices to internally value their production. The Task Force Report on California crude oil highlighted the substantial evidence in this regard, along with the evidence that field prices were undervalued. Almost all of these large companies stress to their stockholders their use of NYMEX futures contracts (or financial derivatives based on them) to minimize the risk that market price fluctuations affect their profits. Their facile attempt to discount the NYMEX was rebutted by NYMEX itself, an entity with no vested interest in the MMS rulemaking.

We also recognize that industry's game plan is to delay adoption of the MMS proposal to value based on indices. What we do not understand is why MMS is buying into industry's plan.

MMS has taken over sixteen months in investigation and rulemaking proceedings on its proposal already, at a substantial cost to the public. We estimate that the U.S. Government has lost $133 million from underpaid oil royalties during that time period. Now MMS proposes to add to that loss by opening up the rulemaking for the consideration of "alternatives," which it admits will lead to still another proposal and comment period. That's just what the major oil companies want. Every month that we postpone this rule means more money to the major oil companies and less money for protecting the environment and educating our children.

It would be one thing if MMS' notice was directed at simple modifications to its original proposal -- fine tuning if you will -- aimed at strengthening its workability. But this is not the case. Rather, the "alternative" that MMS posits for comment can only be viewed as a significant step backward. Why, we must ask, is MMS running away, when States, like Texas and Louisiana, are successfully collecting royalties using methodologies substantially identical to that in the MMS original proposal?

How, given the evidence it has compiled and the independent analyses that it has conducted, could MMS even consider the "alternatives" listed in its proposal? Alternative 1 is based on a method, newly devised by industry, under which a company tenders some of its crude oil for sale. MMS does not note that this newly devised method was invented solely for the purpose of calculating royalty payments. If that does not condemn it on its face, the fact that it would require MMS oversight and audit to insure the process derives a truly competitive and statistically significant measure of oil prices surely does.

The second alternative is hardly different from the rules now in use. To be sure, it deletes all references to posted prices, but it will not serve to delete the use of posted prices to value oil. Even the industry associations that promote this method admit that most field sales are based on posted prices.

The third alternative is, at best, ill-defined. Most likely this results from the fact that it was unaccompanied by any reasoned plan that would demonstrate how MMS could modify its computer programs to generate a reliable number that could be used as a basis for value. MMS' own experience with its AFS data, coupled with that of the States and Congress' reviews, should have served to keep this alternative off the table. Are we to wait the years it would take MMS to design and test such a program before the true value in royalties is collected? Even if achievable within a reasonable time frame, this alternative promises little more than unaudited price information resulting in royalties comparable to that being received under the current rules.

In short, MMS' apparent intent to restart the deliberation process after over seven months of development and a nine month comment period raises serious questions about MMS' intent that should be clarified immediately:

* Is MMS seriously considering abandoning an independent index of value for one of these "alternative" procedures?

* If so, what has MMS found in the earlier comments or in any subsequent analyses that would indicate now that MMS was originally in error in proposing market indices for valuation? What were the technical arguments raised by industry that led MMS to reopen its deliberative process? How do those technical arguments stand up to the criticism of other commenters and MMS' own analysis?

* What in the technical arguments raised by industry or others demonstrate that the proposed alternatives will resolve on a nationwide basis the problems with the current valuation rules?

* Are there any legal arguments or impediments that suggested to MMS that it must seek comments on these alternatives. If so, what are those authorities?

* What led MMS to select the particular alternatives set forth in its notice? Why did it not seek comments on modifications to the gross proceeds rule, like those proposed by Oklahoma and California? Has MMS decided to go forward with the proposal on gross proceeds reflected in its last notice on the oil valuation regulations?

These questions should be answered separately for the originally proposed NYMEX and ANS valuation methods.

We request that MMS clarify its intent and provide answers to the above questions within the next two weeks. In addition, we request that MMS include its revised schedule for implementation of a new valuation procedure. Finally, within two weeks of the close of the comment period on the September 22 notice, we would like to receive a report on what new factors or alternatives, if any, were introduced and MMS' assessment of them.

As noted, every day of delay is costing the United States money. This, if anything, underscores that MMS should make up its mind and proceed. It is clear that royalty payors are unified in demanding that the government takes all of its oil in production, rather than revise the valuation rule. They are unlikely to be dissuaded or appease by compromises. It is time to move this process to the next step.

Sincerely,

Carolyn B. Maloney
MEMBER OF CONGRESS

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MEMBER OF CONGRESS

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September 12, 1997

Mr. Larry Nichols
Devon Energy
20 North Broadway #1500
Oklahoma City, OK 73102

Dear Mr. Nichols:

I am writing to respond to your suggestion, during your testimony before the Subcommittee on Energy and Resources, that I misrepresented the role of Devon Energy as an oil marketer.

While I am not in a position to dispute your representations to the Subcommittee on the level of current outside purchases made by Devon Marketing, I based my testimony on information from SEC filings, which of course are consolidated reports of Devon Energy and all of its subsidiaries. Moreover, focusing on Devon Marketing's current level of outside purchases is not directly responsive to the concern I was addressing.

As I stated in my testimony, I did not mean to single out your company. Rather, I was using your company as an example of what I am informed is an increasingly common practice in the marketing/reseller segment of the industry. But, of course, given the lead role you have assumed in the push for a legislatively directed RIK program, which apparently would include as part of industry's "6 point" plan a requirement that MMS use marketing agents, the existence of Devon Marketing certainly served as a convenient example when it was brought to my attention.

In summary form, our review of Devon Energy's SEC filings indicated the following. Devon Marketing is one of two of Devon Energy's related entities that conducts "most of Devon's operations." (E.g. 1994 Proxy Statement; Alta Energy Corp. Merger) Devon Marketing was created in 1983 as part of a strategy of "Oil Sales Enhancement." (E.g. 1989 10-K). This strategy involved the purchase of production by Devon Marketing from both Devon's production subsidiary and unaffiliated "small" producers at "posted field prices" and reselling it to refiners, resellers and majors -- all unaffiliated companies -- at higher prices. (E.g. 1988 Annual Report to Stockholders; 1989 10-K; 1993 Annual Report to Stockholders). Devon Energy did indeed profit through this strategy. Thus in 1988, Devon reported to its stockholders that it netted an additional "$0.09 - $0.25 per barrel of oil remarketed" during the years 1983 to 1988. And in

1991, Devon reported that "Since 1987, Devon Marketing's contribution to revenues has grown by 300%" (1991 Annual Report to Stockholders), although apparently by this date Devon Marketing's operations expanded to include gas.

One of the initial questions I was struck with when I reviewed this information, of course, was why Devon Energy, and larger independents like it, would be so vehemently oppose to MMS' proposals on the ANS and NYMEX methods. As repeated frequently in the SEC reports Devon Marketing sells to unaffiliated entities. Generally, a "semi-integrated" company, such as Devon, would be entitled to continue paying royalties on the gross proceeds under its first arm's length sale. In my opinion, it would have been more generous, if not fairer, of you to have acknowledged this in conjunction with your fear that MMS will someday "encroach" on independent producers by requiring payment of "phantom income." At least according to Devon's SEC filing, there is nothing "phantom" about Devon's above-posting arm's length prices.

I recognize that one of industry's themes is that the federal government should not gain from the increased "risks" companies claim to take through marketing. It is at least interesting in this regard that Devon has said that "Devon Marketing's purpose is to ... minimize the risks associated with selling our oil and gas." (E.g. 1993 Annual Report to Stockholders). Devon Marketing, according to this same report:

> locates customers . . .; negotiates purchase/sale contracts; finds the most reliable and cost-effective ways to transport our products . . .; and monitors the process to ensure contract terms are met.

Aside from transportation (which I am sure you recognize would remain a deductible allowance from royalty under MMS' gross proceeds proposal), the costs associated with the activities listed in Devon's report clearly constitute "marketing expenses," the basic definition of which provides:

> Expenses incurred in locating buyers, preparing and negotiating sales contracts, and monitoring sales. Such expenses have been held not to be excludable from gross proceeds for royalty purposes. (8 Williams and Meyers, Oil and Gas Law, Manual of Terms.)

But, of course, industry's rather confusing characterization of MMS' proposed oil valuation proposals was not the point I was attempting to raise in my testimony. Incidentally, I would be interested in knowing if Devon uses hedging devices to minimize risk, as do several other companies of its size and capabilities.

As I am sure you are aware, it is my firm conviction that posted field prices do not represent the true value of production and I have been convinced that many independents concur. Given this and the common practices of marketers, as reflected in Devon's own reports, I seriously question the benefit to the federal government from being required to use marketers for the sale of oil production taken in kind. It seems abundantly clear that the result would be locking the federal government into accepting undervalued posted prices, or as summarized in my testimony, putting the federal government in the same position as the small independent producer.

My assumption is that marketers would not agree to share the gain obtained from buying at low posted prices and reselling at truer value. But, as I noted in my testimony, I am interested in knowing what percentage of any premium would be shared with the federal government and what would be kept as a "marketing fee."

As I understand it you did not address these points during your testimony. Yet, for me, these are the most fundamental issues that must be evaluated in order to determine, as Director Quarterman put it, whether an RIK program is in the "best interests of the United States." If Devon Energy felt singled out by my testimony, you have my assurances that I do not believe its oil marketing strategy is unique. However, if, as suggested in your testimony, industry views its role as one of providing assistance to Congress and the federal government, I believe industry has an obligation to provide honest answers to fair questions.

As I said in my testimony, Devon Energy is a fine company. The "contrarian" approach Devon promotes in its reports has apparently worked well to grow the company. The fact remains though that federal lessees, such as Devon, undertook obligations to the public when they were granted the privilege of operating on federal public lands. These obligations including paying royalty on government's option. Personally, I simply do not agree that Congress should legislatively relieve federal lessees from their contractual commitments.

Sincerely,

Carolyn B. Maloney

CAROLYN B. MALONEY
Member of Congress

cc: The Honorable Barbara Cubin
Chairman, Subcommittee on Energy and Mineral Resources
The Honorable Cynthia Quarterman
Director, Minerals Management Service

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

SEP 29 1997

Honorable Slade Gorton
Chairman, Subcommittee on
Interior and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

It has come to my attention that representatives from the oil and gas industry have requested House and Senate Interior Appropriations conferees to include language in the Interior conference report that would undermine the Minerals Management Service's (MMS) ability to move forward in a timely fashion to ensure that the public receives a fair price for its mineral resources located on Federal lands. The language would address three different issues—promulgation of geological and geophysical (G&G) regulations; promulgation of oil valuation regulations: and royalty-in-kind (RIK) programs. All three of these issues have potentially significant revenue impacts to the Treasury. The Department strongly opposes the inclusion of any language. We believe there is no need for such language and that these requests merely represent an attempt on the part of some to impede the agency from an equitable and timely resolution of these issues.

G&G Language

With respect to the proposed G&G language, it is our understanding that language may be considered that would direct MMS to delay its current rulemaking and, instead, engage in a negotiated rulemaking. We strongly believe that a negotiated rulemaking would be a futile exercise given the fact that the MMS and the industry fundamentally disagree on the major, legal issue associated with the rulemaking—the right of the Federal government to access "third party" data (data acquired under license from a permittee). The OCS Lands Act, current MMS regulations, and the MMS permit issued in conjunction with G&G exploration activities clearly state that MMS has the right to access all data and information. Our position has been unwavering on this legal issue for more almost two decades, and our current rulemaking simply clarifies this authority.

However, other issues have been raised by industry as a reason for a negotiated rulemaking—for example, the issue of ensuring the confidentiality of any data received from third parties by MMS and the issue of potential impacts to geophysical companies if they must renegotiate their licensing agreements with third parties. MMS has already indicated that while it believes that confidentiality issues have been addressed, we are willing to try to strengthen these provisions even further. In addition, MMS has repeatedly indicated that the issue of licensing agreements between G&G permittees and their licensees is outside the scope of the G&G rulemaking.

We believe the issue is straightforward. The citizens of the United States have given private industry—through legislation—access to the mineral resources found on the public lands of the Outer Continental Shelf (OCS). What has been asked in return is that a fair price be paid for that right. MMS—as the agent for the American taxpayers—has been given the responsibility to ensure that the leases for these minerals rights represent fair market value. The method used by MMS to assess fair market value is to evaluate the G&G data for oil and gas potential and then incorporate that data into economic models. We believe Congress recognized the absolute need for the Federal government to have access to these data when it passed the OCS Lands Act and gave the Department the statutory authority to obtain all data and information—including processed information acquired under a G&G permit.

MMS strives to run its operations like a business. And sound business practices dictate that the better data the agency has, the more confidence the agency will have in its analyses. If MMS lacks access to the data necessary to ensure that it is obtaining a fair price for the public's assets, it would have to request roughly $50-100 million more per year in appropriated dollars to buy the data or it would be forced to take a more conservative approach to its analyses. This may result in a higher bid rejection rate than is necessary. Fair market value assessments of blocks subject to the Deep Water Royalty Relief Act are particularly important because the government receives the bulk of its revenue on these blocks through the initial bonus bid. It is imperative that MMS have final G&G rules in place prior to the March 1998 Gulf of Mexico lease sale.

The ability of MMS—and the American public—to be equal partners with industry in developing OCS resources is a top priority for the agency. MMS will continue to work with all segments of industry to put in place a process whereby MMS has access to data it needs to ensure an effective leasing program, where industry has assurances that they will be able to compete effectively on a company-by-company basis, and where the taxpayers of the United States believe that their assets are being managed in the best way possible.

Federal Oil Valuation

We are also concerned about language in the conference report that would mandate an indefinite extension of the comment period for the proposed Federal oil valuation rule. The MMS feels strongly that any delay would be detrimental to the proper collection of royalties. Because of the magnitude of the potential under reporting of Federal oil royalties (about $54 million annually), the impact on taxpayers would be substantial. We urge you to resist attempts to delay the rulemaking process.

To date, MMS has made every effort to include industry in its rulemaking and believes, in light of its September 22, 1997, *Federal Register* notice inviting additional public comment, it is premature to even consider seeking an extension to the comment period. The notice is asking for new valuation options that are based on the suggestions of industry and other public commenters. During September and October, MMS will be holding several workshops with constituents to discuss these options and receive input on developing new options for valuing federal oil. It is MMS's desire to promptly develop a procedure that provides certainty to industry in determining value, while protecting the public's interest in its mineral resources.

Royalty-In-Kind

MMS opposes any language that directs the MMS to implement RIK programs for any commodity, in geographic areas and circumstances which the agency believes will adversely affect the U.S. Government. The MMS' final 1997 RIK Feasibility Study identifies conditions which would not be in the Federal Government's interest, potentially jeopardizing Federal mineral royalty income. MMS currently has the authority under statute and contractually through lease terms to take royalties in-value or in-kind. Any weakening of our ability to decide how best to collect Federal royalties is inconsistent with Federal stewardship of public lands and the Outer Continental Shelf and with our fiduciary responsibilities to the American taxpayer.

MMS further opposes any language that delays or constricts its ability to develop RIK programs and pilots that meet its responsibility to the taxpayer. MMS has committed to work closely with the affected States and the oil and gas industry as we proceed to broadly develop and analyze the proposed RIK programs. Our feasibility study identified three potential areas for RIK programs that will allow us to study the concept onshore and offshore, and for both oil and gas. The proposed language in this regard is both unnecessary and potentially damaging to the Federal interest. MMS already held six public workshops to initiate this consultation process, efforts that were widely praised for their openness and objectivity. Collectively, MMS spoke with over 250 industry and State representatives during the past 6 months on royalty in kind issues. MMS has pledged to continue to work with the States and industry.

In conclusion Mr. Chairman, I believe we share the same goals in protecting public revenues and wisely managing our mineral resources. I strongly urge you to reject any efforts to add these unacceptable provisions to the conference report on H.R. 2107.

A similar letter is being sent to Honorable Ralph Regula, Chairman, Subcommittee on Interior and Related Agencies, Committee on Appropriations, U.S. House of Representatives.

Sincerely,

Cynthia Quarterman
Director

cc: Honorable Robert C. Byrd
Ranking Minority Member